

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 DODE-00 PA-04 USIA-15 PRS-01 IO-14

DRC-01 /192 W

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R 241512Z JUN 74

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 0113

AMEMBASSY LONDON

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS PRETORIA 2714

E.O. 11652: N/A

TAGS: EFIN,SF

SUBJECT: SOUTH AFRICA REVALUES (SLIGHTLY)

SUMMARY: IN ANNOUNCEMENT JUNE 22 SAG ANNOUNCED SLIGHT UPWARD REVALUATION OF RAND BY TWO-THIRDS OF ONE PERCENT AND BROKE FIXED PEG OF RAND TO DOLLAR,ALLOWING INDEPENDENT MANAGED FLOAT.
END SUMMARY.

1. IN STATEMENT ISSUED PRETORIA JUNE 22 ON BEHALF MINFIN DIE ERICHS, DECISION WAS ANNOUNCED TO REVALUE RAND SLIGHTLY UPWARD FROM US\$1,4862 TO RAND OF \$1.4962-\$1.5037, I.E. AN EFFECTIVE REVALUATION OF 0.67 PERCENT WITH POSSIBLE ADDITIONAL UPWARD FLOAT OF 0.50 WITHIN BAND,AND TO DISCONTINUE LINK WITH DOLLAR.

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2. JUSTIFICATION GIVEN FOR NEW SYSTEM IS TO REMOVE RAND FROM PRESSURES THAT DEVELOP PERIODICALLY AGAINST DOLLAR IN

FORGN EXCHANGE

YAZ STATEMENT DESCRIBES NEW SYSTEM AS

" INDEPENDENT MANAGED FLOAT" WHICH ENVISAGES SMALLER AND MORE FREQUENT PARITY ADJUSTMENTS. WHILE DOLLAR LINK REMAINS, SYSTEM WOULD ALLOW SA RESERVE BANK TO MAKE ADJUSTMENTS TO REFLECT EFFECTIVE AVERAGE RAND EXCHANGE RATE, MOVEMENTS OF CURRENCIES OF SPECIAL IMPORTANCE, SARB FOREIGN EXCHANGE DEALINGS, BALANCE OF PAYMENTS TENDENCIES AND DOMESTIC FINANCIAL AND ECONOMIC SITUATION.

3. COMMENT: (A) EFFECT OF DOLLAR FLUCTUATIONS ON EFFECTIVE AVERAGE VALUE OF RAND (EG. DOWN AN ESTIMATED 6 PERCENT SINCE BEGINNING OF YEAR) HAS BEEN MATTER OF CONCERN TO SAG AUTHORITIES, ESPECIALLY SINCE FLUCTUATIONS REFLECTIVE NEITHER OF SA SITUATION NOR OF POLICY GOALS. RECENTLY THERE HAS BEEN SOME SPECULATION OF POSSIBLE 5 PERCENT APPRECIATION AGAINST THE \$ DOLLAR. TWO FACTORS, WE BELIEVE, HAVE EMERGED TO PREVENT THIS AT MOMENT. ONE IS SLIP IN LONDON GOLD PRICE; THE OTHER INCREASING BALANCE PAYMENTS DEFICITS. DEFICIT ON TRADE ACCOUNT WAS R 95 MILLION IN APRIL AND R 162 MILLION IN MAY - WITH OVER

ALL TOTAL FIRST FIVE MONTHS DEFICIT OF 1974 R 576 MILLION COMPARED TO R 273 MILLION FOR SAME PERIOD 1973. THESE PUBLISHED STATISTICS EXCLUDE IMPORTS OF PETROLEUM AND MILITARY EQUIPMENT WHICH ALSO ARE BALANCE OF PAYMENTS BURDEN

NOR HAS INFLOW ON CAPITAL ACCOUNT MATERIALIZED TO DEGREE ANTICIPATED. (B) WHILE HIGH INFLATIONARY RATE HAS BEEN A CONTINUING WORRY TO SAG AND WILL ONLY BE AGGRAVATED BY RECENT

STATE OF WAGE INCREASES, IT IS NOT EXPECTED THAT PRESENT REVALUATION LARGE ENOUGH TO HAVE ANY APPRECIABLE EFFECT. FACTORS CITED IN SUB PARA (A) ABOVE HAVE ACTED TO DEFER ANY HOPES RISING ORIGINALLY HOPED FOR RATE OF REVALUATION IN FIVE PERCENT RANGE AS DEFLATIONARY MEASURE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOLLAR, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PRETOR02714
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740166-0102
From: PRETORIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740619/aaaaaqfj.tel
Line Count: 105
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 29 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 AUG 2002 by PhilliRO>; APPROVED <14 JAN 2003 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOUTH AFRICA REVALUES (SLIGHTLY) SUMMARY: IN ANNOUNCEMENT JUNE 22 SAG ANNOUNCED SLIGHT UP-
TAGS: EFIN, SF
To: STATE LONDON
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005